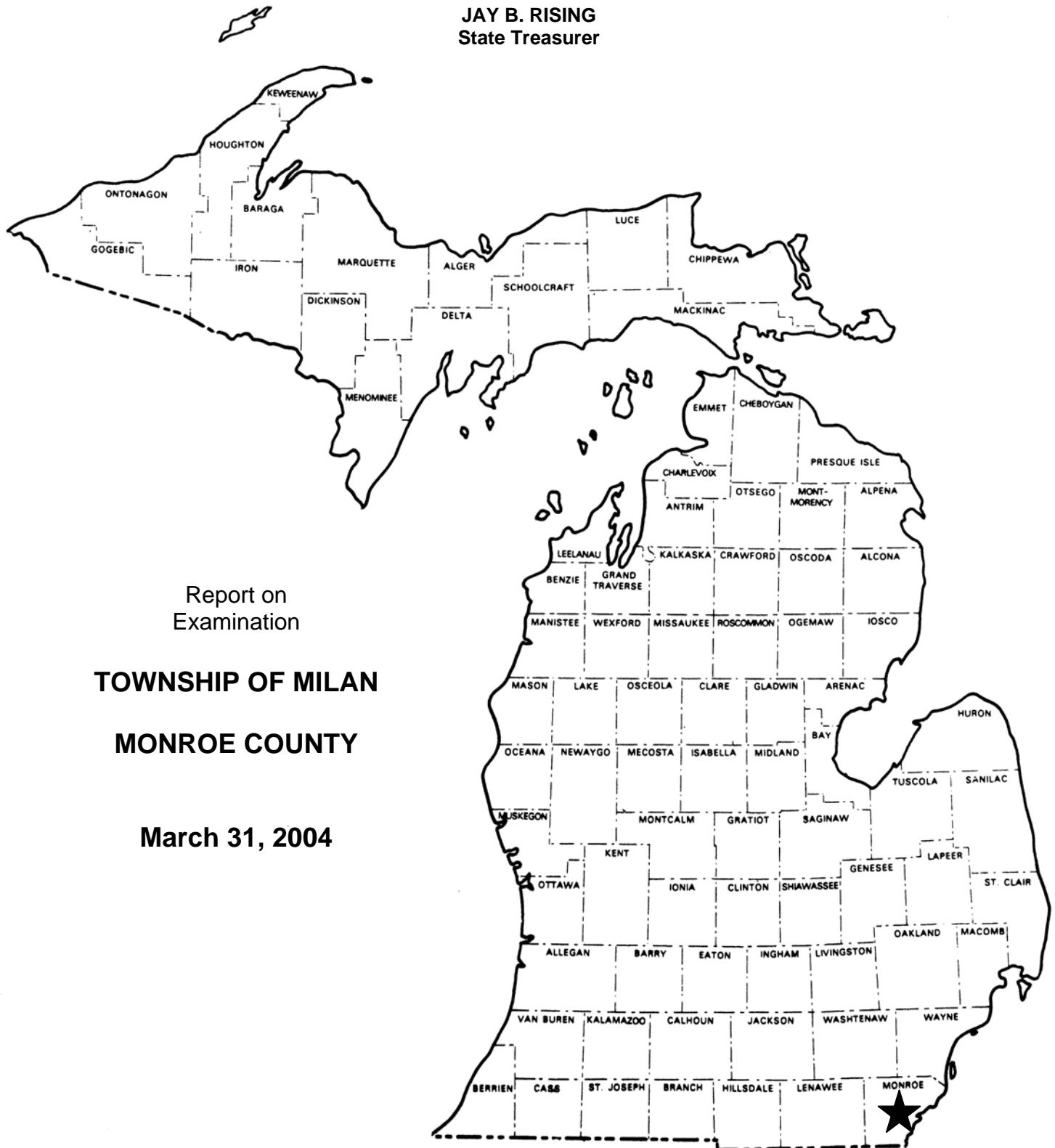


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY

JAY B. RISING
State Treasurer



Report on
Examination

TOWNSHIP OF MILAN

MONROE COUNTY

March 31, 2004

Local Audit and Finance Division
Bureau of Local Government Services

MILAN TOWNSHIP--MONROE COUNTY

TOWNSHIP BOARD

David Wittkop
Supervisor

Margaret Rock
Clerk

Daryl Lukasik
Treasurer

Olga Mancik
Trustee

Robert Dopkowski
Trustee

TOWNSHIP POPULATION--2000
1670

STATE EQUALIZED VALUATION--2004
\$82,446,643



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

March 22, 2005

Milan Township Board
Monroe County
16444 Cone Road
Milan, Michigan 48161

Independent Auditor's Report

Dear Board Members:

We were engaged to audit the accompanying general purpose financial statements of Milan Township, Monroe County, Michigan, as of and for the year ended March 31, 2004 as listed in the Table of Contents. These general purpose financial statements are the responsibility of Milan Township's management.

Milan Township did not maintain a general ledger for the fiscal year March 31, 2004 and was unable to produce evidence supporting the expenditures incurred for the time period of May 2003 through October 2003, or one half of the Township's fiscal year and could not provide official board minutes from January 2003 through September 2003. Also, the Milan Township could not produce its 2003/2004 General Appropriations Act. The records of Milan Township do not permit the application of other auditing procedures related to expenditures.

Since Milan Township did not maintain its general ledger and did not retain the proper documentation of its expenditures or official board minutes and we were not able to apply other auditing procedures to satisfy ourselves as to the validity of the expenditures, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on these financial statements.

A handwritten signature in dark ink, appearing to read "CJ Vaughn".

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

MILAN TOWNSHIP--MONROE COUNTY

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MILAN TOWNSHIP--MONROE COUNTY
 COMBINED BALANCE SHEET--ALL FUND TYPES
 March 31, 2004

EXHIBIT A

| | GOVERNMENTAL FUND TYPES | | | FIDUCIARY FUND TYPE | ACCOUNT GROUPS | |
|---|----------------------------|--------------------|---------------------|------------------------|----------------------------|-------------------------------|
| | General Fund | Special Revenue | Capital Projects | Agency Funds | General Fixes Assets | Total (Memorandum Only) |
| <u>ASSETS</u> | | | | | | |
| Cash | \$234,296 | \$160,275 | \$16,776 | \$2,925 | | \$414,272 |
| Receivables | | | | | | |
| Delinquent Property Taxes | 4,170 | 6,633 | | | | 10,803 |
| Delinquent Special Assessments | | 417 | | | | 417 |
| Due From State | 15,520 | | | | | 15,520 |
| Due From Other Funds | 2,517 | | | | | 2,517 |
| Fixed Assets | | | | | \$ 57,959 | 57,959 |
| Total Assets | \$256,503 | \$167,325 | \$16,776 | \$2,925 | \$ 57,959 | \$501,488 |
| <u>LIABILITIES AND FUND EQUITY</u> | | | | | | |
| Liabilities | | | | | | |
| Accounts Payable | \$ 4,592 | | | | | \$ 4,592 |
| Due to Other Funds | | | | \$2,517 | | 2,517 |
| Due to State | | | | 408 | | 408 |
| Total Liabilities | 4,592 | \$ - | \$ - | 2,925 | \$ - | 7,517 |
| Fund Equity | | | | | | |
| Fund Balance | | | | | | |
| Unreserved | 251,911 | 167,325 | 16,776 | | | 436,012 |
| Investment in Fixed Assets | | | | | 57,959 | 57,959 |
| Total Fund Equity | 251,911 | 167,325 | 16,776 | - | 57,959 | 493,971 |
| Total Liabilities and Fund Equity | \$256,503 | \$167,325 | \$16,776 | \$2,925 | \$ 57,959 | \$501,488 |

The Notes to Financial Statements are an integral part of this statement.

**MILAN TOWNSHIP--MONROE COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
For the Year Ended March 31, 2004**

EXHIBIT B

| | General | Special Revenue | Capital Project | Total (Memorandum Only) |
|---|------------------|--------------------|--------------------|-------------------------------|
| Revenues | | | | |
| Taxes | \$ 64,831 | \$ 98,332 | | \$ 163,163 |
| Licenses and Permits | 850 | 15,749 | | 16,599 |
| State Grants | 117,810 | 689 | | 118,499 |
| Contributions From Local Units | 4,175 | | | 4,175 |
| Charges for Services | 3,030 | | | 3,030 |
| Interest | 2,151 | 942 | \$ 188 | 3,281 |
| Other Revenue | 921 | 3,731 | | 4,652 |
| Total Revenues | 193,768 | 119,443 | 188 | 313,399 |
| Expenditures | | | | |
| Legislative | 9,071 | | | 9,071 |
| General Government | 117,740 | | | 117,740 |
| Public Safety | 33,653 | 76,398 | | 110,051 |
| Public Works | 28,634 | 55,834 | | 84,468 |
| Other | 10,311 | | | 10,311 |
| Capital Outlay | 5,180 | | | 5,180 |
| Total Expenditures | 204,589 | 132,232 | - | 336,821 |
| Excess of Revenues Over (Under) Expenditures | (10,821) | (12,789) | 188 | (23,422) |
| Fund Balance--April 1, 2003 | 262,732 | 180,114 | 16,588 | 459,434 |
| Fund Balance--March 31, 2004 | \$251,911 | \$167,325 | \$16,776 | \$ 436,012 |

The Notes to Financial Statements are an integral part of the statement.

MILAN TOWNSHIP--MONROE COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES--BUDGET AND ACTUAL
GENERAL FUND AND SPECIAL REVENUE FUNDS
For the Fiscal Year Ended March 31, 2004

EXHIBIT C

| | GENERAL FUND | | | SPECIAL REVENUE FUNDS | | |
|---|---------------------|-----------|--|------------------------------|-----------|--|
| | Budget | Actual | Variance Favorable (Unfavorable) | Budget | Actual | Variance Favorable (Unfavorable) |
| Revenues | | | | | | |
| Taxes | - | \$ 64,831 | \$ 64,831 | | \$ 98,332 | \$ 98,332 |
| Licenses and Permits | - | 850 | 850 | | 15,749 | (15,749) |
| State Grants | - | 117,810 | 117,810 | | 689 | (689) |
| Contributions From Local Units | - | 4,175 | 4,175 | | | |
| Charges for Services | - | 3,030 | 3,030 | | | - |
| Interest | - | 2,151 | 2,151 | | 942 | (942) |
| Other Revenue | - | 921 | 921 | | 3,731 | (3,731) |
| Total Revenue | \$ - | 193,768 | 193,768 | \$ - | 119,443 | 77,221 |
| Expenditures | | | | | | |
| Legislative | 23,706 | 9,071 | 14,635 | | | |
| General Government | 127,110 | 117,740 | 9,370 | | | |
| Public Safety | 49,950 | 33,653 | 16,297 | 78,156 | 76,398 | 1,758 |
| Public Works | 49,314 | 28,634 | 20,680 | 4,000 | 55,834 | (51,834) |
| Other | 12,400 | 10,311 | 2,089 | | | |
| Capital Outlay | 5,500 | 5,180 | 320 | | | |
| Total Expenditures | 267,980 | 204,589 | 63,391 | 82,156 | 132,232 | (50,076) |
| Excess of Revenues Over (Under) Expenditures | (267,980) | (10,821) | 257,159 | (82,156) | (12,789) | 27,145 |
| Fund Balance--April 1, 2003 | - | 262,732 | 262,732 | - | 180,114 | 180,114 |
| Fund Balance--March 31, 2004 | \$(267,980) | \$251,911 | \$519,891 | \$(82,156) | \$167,325 | \$ 207,259 |

The Notes to Financial Statements are an integral part of this statement

MILAN TOWNSHIP--MONROE COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--REPORTING ENTITY

Milan Township is located in Monroe County and provides services to its residents in many areas including fire protection, street lighting, community enrichment and development, and human services. Milan Township is a general law township governed by a 6 member board elected by the citizens of Milan Township. The board consists of the supervisor, clerk, treasurer and three trustees whom reside in the community.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the township. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading, if data were not included. Educational services are provided through the local school districts, which are separate governmental entities and, therefore, are not presented in the financial statements included herein. The township is the primary government and there are no other component units that should be reported.

JOINT VENTURE

Milan Area Fire Department

On July 1, 1980, an agreement was made by and between the City of Milan and the Townships of Milan, London and York to establish the Milan Area Fire Department. This agreement was amended effectively July 1, 1990 and will remain in full force and effect until June 30, 2000 at which time the contract was extended until June 30, 2003. Effective January 1, 2003, this agreement was replaced with an agreement intended to remain in full force and effect to June 30, 2007. The department provides fire protection services and operates under the control of an executive committee consisting of the chief executive of each of the participating units with one additional member of the governing body from each unit. The cost of maintaining the fire department is paid for by the aforementioned parties on the basis of percentages which are calculated on the basis of State Equalized Value (60%), service area - in acres (5%), population as determined by latest decennial census (10%), miles of roads (5%), and dwelling units, commercial units, industries, schools, and churches (10%). The percentage is calculated annually.

The following is a summary of the amounts paid to the Milan Area Fire Department as reported on the financial audit dated June 30, 2004:

| <u>Unit</u> | <u>Percentages</u> | <u>Payments</u> |
|-----------------|--------------------|-----------------|
| City of Milan | 44.33% | \$ 108,600 |
| Milan Township | 16.77% | 49,944 |
| London Township | 13.36% | 39,131 |
| York Township | 25.54% | 67,982 |

MILAN TOWNSHIP--MONROE COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--REPORTING ENTITY (Continued)

Since the inception of the Milan Area Fire Department, separate capital accounts have been maintained reflecting the percentage of ownership of the personal property and funds of the fire department held by each party. Said capital accounts shall be maintained as before and, when new equipment is purchased or cash assets accrued, each party shall have credited to its capital account the percentage of the purchase price of such equipment or cash accrued, in effect during the year of purchase or accrual. As of June 30, 2004, the amounts reserved are as follows:

| <u>Unit</u> | <u>Invested in Capital Assets</u> | <u>Restricted for Capital Improvements</u> |
|---------------------------------|---------------------------------------|--|
| City of Milan | \$ 200,080 | \$ 138,847 |
| Milan Township | 85,992 | 59,383 |
| London Township | 118,986 | 82,270 |
| York Township | <u>71,560</u> | <u>49,634</u> |
| Total Assets of Fire Department | <u><u>\$ 476,618</u></u> | <u><u>\$ 330,134</u></u> |

NOTE B--BASIS OF PRESENTATION

The accounts of the township are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The financial activities of the township are recorded in separate funds and account groups categorized as follows:

GOVERNMENTAL FUNDS

General Fund

This fund is used to account for all financial transactions except those provided for in another fund. The fund includes the general operating expenditures of the township. Revenues are primarily derived from property taxes, State grants and permits.

Special Revenue Funds

These funds are used to account for specific revenue (other than special assessments, expendable trusts, or major capital projects) derived from State and Federal grants, property taxes and charges for services which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements.

MILAN TOWNSHIP--MONROE COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE B--BASIS OF PRESENTATION (Continued)

Capital Project Fund

This fund is used to account for the acquisition or construction of major capital facilities other than those financed by proprietary funds operations. The only capital project fund maintained by the township is the Township Hall Renovation Fund.

FIDUCIARY FUNDS

Trust and Agency Fund

These funds are used to account for the assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or funds. These include Current Tax Collection and Trust and Agency Fund.

ACCOUNT GROUPS

General Fixed Assets

This account group presents the fixed assets of the township utilized in its operations, other than those fixed assets recorded in proprietary and trust funds.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting policies of Milan Township conform to generally accepted accounting principles as applicable to governmental units.

Governmental Funds

The governmental fund types use a financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on long-term debt, which is recognized when due.

MILAN TOWNSHIP--MONROE COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE B--BASIS OF PRESENTATION (Continued)

Fiduciary Funds

The fiduciary funds are maintained on a cash basis, which is consistent with the accounting measurement objectives of the funds. Reporting this fund on a cash basis does not have an effect materially different from reporting it on the accrual or modified accrual basis as required by generally accepted accounting principles.

Cash, Cash Equivalents and Investments

Investments are recorded at cost. Demand deposits and short-term investments with a maturity date of 3 months or less when acquired are considered to be cash equivalents.

Interest-Bearing Deposits

Interest-bearing deposits are recorded at cost. Interest earned is recorded as revenue when the investment matures or when credited by the financial institutions to the interest-bearing account.

General Fixed Asset Account Group

This account group is used to account for the township's fixed assets other than those accounted for in proprietary or trust funds. Public domain (infrastructure) general fixed assets, consisting of certain improvements other than buildings, are not capitalized. All assets are included in the general fixed asset account group.

Property Taxes

It is the township's policy to recognize revenues in the current year when the proceeds are budgeted and made available for the financing of township operations.

The 2003 taxable value of Milan Township amounted to \$54,155,066, on which ad valorem taxes of 2.6878 mills were levied for the following purposes: 0.8514 mills for Township Operating, 0.6886 mills for Roads Service and 1.1478 mills for Fire Service. The 2003 current tax levy included \$42,296 for Township Operations, \$34,208 for Road Service and \$57,021 for Fire Service. These taxes are recorded as revenue on the townships records when received.

Special Assessments

Special assessments resulted in revenue of \$3,315 to the township for the street lighting district. These assessments are recorded as revenue on township records in and for the fiscal year of 2004.

MILAN TOWNSHIP--MONROE COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE B--BASIS OF PRESENTATION (Continued)

Delinquent Receivables

The delinquent property taxes receivable and delinquent special assessments receivable in the general and special revenue funds consist of uncollected real property taxes levied December 1, 2003, and property assessments which have not been collected at March 31, 2004. The delinquent receivables were paid by the county to the township in June 2004.

| <u>Taxes Receivable</u> | | <u>Special Assessments Receivable</u> | |
|-------------------------|-----------------|---------------------------------------|---------------|
| <u>Fund</u> | <u>Amount</u> | <u>Fund</u> | <u>Amount</u> |
| General | \$ 4,170 | Street Lights | \$ 417 |
| Road Improvements | 2,487 | | |
| Fire and Rescue | <u>4,146</u> | | |
| Total | <u>\$10,803</u> | Total | <u>\$ 417</u> |

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the following: assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Total Memorandum Only

The total columns on the combined statement are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation because interfund elimination has not been made in the aggregation of this data.

MILAN TOWNSHIP--MONROE COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE C--LEGAL COMPLIANCE

Budget Information

The township prepared a line-item expenditure budget for the General Fund and Special Revenue Funds. There was no public hearing held for public comment on the proposed budget and the township board could not produce evidence to support a formal resolution adopting the budget. The expenditure budget presented in this report is based on information given by an official of the township. The budgeting process and procedures were **not** substantially in compliance with the requirements set forth in the Uniform Budgeting and Accounting Act (Public Act 2 of 1968, as amended).

Fund Deficit

Milan Township has accumulated fund balance deficit of \$525 in the Building Fund.

Public Act 275 of 1980 (MCL 141.921) requires that Milan Township file a deficit elimination plan to the Michigan Department of Treasury within 90 days after the end of the fiscal year for each fund that ended that year in a deficit condition. Milan Township has not filed the required plan.

Noncompliance With the Uniform Chart of Accounts

The classification of accounts for Michigan local units of government has been developed under authority of Public Act 2 of 1968, by the Michigan Department of Treasury, Local Audit and Finance Division.

The primary objective of this classification of accounts is to provide a means for the accumulation of financial information, which will be uniform for all local units. Secondly, the chart of accounts follows generally accepted accounting principles and Michigan law.

The Township of Milan does not entirely adhere to the Uniform Chart of Accounts established by the Michigan Department of Treasury. Therefore, the audited financial statements represent the auditor's compilation of data to the function level. Further detail is not presented.

Other Areas of Noncompliance

1. Failure to adopt an ACH policy in accordance with PA 738 of 2002, (MCL 124.303)
2. Noncompliance with the annual audit as required by PA 2 of 1968, as amended, (MCL 141.427)
3. Noncompliance of the distribution of old outstanding checks as required by PA 29 of 1995, (MCL 567.234 and MCL 567.238)]

MILAN TOWNSHIP--MONROE COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE D--DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the township to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The township board has designated nine banks for the deposit of township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government but not the remainder of the State statutory authority as listed above.

Governmental Accounting Standards Board (GASB) Statement No. 3, risk disclosures for the township's cash deposits, are as follows:

| <u>Deposits</u> | <u>Bank Balances</u> | <u>Carrying Amount</u> |
|-----------------|--------------------------|----------------------------|
| Insured (FDIC) | \$428,618 | \$414,272 |
| Uninsured | <u>79,172</u> | <u></u> |
| Total Deposits | <u>\$507,790</u> | <u>\$414,272</u> |

NOTE E--INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables for the township are as follows:

| <u>Fund</u> | <u>Interfund Receivable</u> | <u>Fund</u> | <u>Interfund Payable</u> |
|--------------|---------------------------------|-------------|------------------------------|
| General Fund | <u>\$2,517</u> | Tax Account | <u>\$2,517</u> |
| Total | <u>\$2,517</u> | Total | <u>\$2,517</u> |

MILAN TOWNSHIP--MONROE COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE F--FIXED ASSETS

A summary of changes in general fixed assets follows:

| | Account Balances 04/01/03 | Additions | Deductions | Account Balances 03/31/04 |
|----------------------|---------------------------------|----------------|-------------|---------------------------------|
| Fixed Asset Accounts | | | | |
| Land | \$ 2,104 | | | \$ 2,104 |
| Buildings | 23,206 | | | 23,206 |
| Voting Equipment | 6,881 | | | 6,881 |
| Office Equipment | 20,588 | \$5,180 | | 25,768 |
| Total | <u>\$52,779</u> | <u>\$5,180</u> | <u>\$ -</u> | <u>\$57,959</u> |

NOTE G--RISK MANAGEMENT

The township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The township continues to carry commercial insurance for property, liability, wrongful acts, crime, inland marine, and other risks of loss including workers' compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past 3 fiscal years.

The Michigan Township's Participating Plan operates as an insurance pool for local units of government in Michigan. The Plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

**MILAN TOWNSHIP--MONROE COUNTY
STATEMENT OF REVENUES
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended March 31, 2004**

EXHIBIT D

| | Budget | Actual | Variance Favorable (Unfavorable) |
|--------------------------------------|--------|-----------|--|
| Revenues | | | |
| Taxes | | | |
| Property Taxes | - | \$ 42,296 | \$ 42,296 |
| Property Tax Administration Fee | - | 17,369 | 17,369 |
| Industrial Facility Taxes | - | 95 | 95 |
| Delinquent Real Property Taxes | - | 4,170 | 4,170 |
| Delinquent Personal Taxes | - | 686 | 686 |
| Penalties and Interest | - | 215 | 215 |
| Total Taxes | \$ - | 64,831 | 64,831 |
| Licenses and Permits | | | |
| Special Use Permits | - | 850 | 850 |
| Total Licenses and Permits | - | 850 | 850 |
| State Grants | | | |
| State Revenue Sharing | - | 117,810 | 117,810 |
| Total State Grants | - | 117,810 | 117,810 |
| Contributions From Local Units | | | |
| City of Milan | - | 4,175 | 4,175 |
| Total Contributions From Local Units | - | 4,175 | 4,175 |
| Charges for Service | | | |
| Zoning Fees | - | 210 | 210 |
| State SET Administrative Fees | - | 2,820 | 2,820 |
| Total Charges for Service | - | 3,030 | 3,030 |
| Interest and Royalties | | | |
| Interest | - | 2,151 | 2,151 |
| Total Interest | - | 2,151 | 2,151 |
| Other Revenue | | | |
| Donations | - | 921 | 921 |
| Total Other Revenue | - | 921 | 921 |
| Total Revenue | \$ - | \$193,768 | \$ 193,768 |

**MILAN TOWNSHIP--MONROE COUNTY
STATEMENT OF EXPENDITURES
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended March 31, 2004**

EXHIBIT E

| | Budget | Actual | Variance Favorable (Unfavorable) |
|----------------------------------|-----------|-----------|--|
| Legislative | | | |
| Township Board | \$ 23,706 | \$ 9,071 | \$14,635 |
| General Government | | | |
| Supervisor | 11,090 | 10,835 | 255 |
| Assessor | 17,350 | 17,626 | (276) |
| Legal Services | 60,000 | 53,621 | 6,379 |
| Clerk | 10,739 | 10,250 | 489 |
| Board of Review | 1,250 | 1,976 | (726) |
| Treasurer | 12,521 | 12,612 | (91) |
| Building and Grounds | 4,050 | 6,905 | (2,855) |
| Cemetery | 10,110 | 3,915 | 6,195 |
| Total General Government | 127,110 | 117,740 | 9,370 |
| Public Safety | | | |
| Fire Department | 10,000 | 10,500 | (500) |
| Planning and Zoning | 39,950 | 23,153 | 16,797 |
| Total Public Safety | 49,950 | 33,653 | 16,297 |
| Public Works | | | |
| Road Maintenance | 46,000 | 25,122 | 20,878 |
| Water Authority | 314 | 512 | (198) |
| Sanitation | 3,000 | 3,000 | - |
| Total Public Works | 49,314 | 28,634 | 20,680 |
| Other | | | |
| Insurance and Bonds | 8,000 | 5,587 | 2,413 |
| Employer Match FICA and Medicare | 4,400 | 4,724 | (324) |
| Total Other | 12,400 | 10,311 | 2,089 |
| Capital Outlay | 5,500 | 5,180 | 320 |
| Total Capital Outlay | 5,500 | 5,180 | 320 |
| Total Expenditures | \$267,980 | \$204,589 | \$63,391 |

**MILAN TOWNSHIP--MONROE COUNTY
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS
March 31, 2004**

EXHIBIT F

| | Road Improvements Fund | Bridge Construction Fund | Fire and Rescue Fund | Liquor Law | Street Lighting Fund | Building Fund | Total |
|---|------------------------------|--------------------------------|----------------------------|---------------|----------------------------|------------------|-----------|
| <u>ASSETS</u> | | | | | | | |
| Cash | \$90,847 | \$7,301 | \$ 57,101 | \$ 333 | \$ 5,218 | \$ (525) | \$160,275 |
| Receivables | | | | | | | |
| Delinquent Property Taxes | 2,487 | | 4,146 | | | | 6,633 |
| Delinquent Special Assessments | | | | | 417 | | 417 |
| Total Assets | \$93,334 | \$7,301 | \$ 61,247 | \$ 333 | \$ 5,635 | \$ (525) | \$167,325 |
| <u>LIABILITIES AND FUND EQUITY</u> | | | | | | | |
| Total Liabilities | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Fund Equity | | | | | | | |
| Fund Balance | 93,334 | 7,301 | 61,247 | 333 | 5,635 | (525) | 167,325 |
| Total Liabilities and Fund Balance | \$93,334 | \$7,301 | \$ 61,247 | \$ 333 | \$ 5,635 | \$ (525) | \$167,325 |

MILAN TOWNSHIP--MONROE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE--SPECIAL REVENUE FUNDS
For the Fiscal Year Ended March 31, 2004

EXHIBIT G

| | Road Improvements Fund | Bridge Construction Fund | Fire and Rescue Fund | Liquor Law | Street Lighting Fund | Building Fund | Total |
|---------------------------------|------------------------------|--------------------------------|----------------------------|---------------|----------------------------|------------------|------------|
| Revenues | | | | | | | |
| Taxes | \$ 36,872 | | \$ 61,460 | | | | \$ 98,332 |
| Licenses and Permits | | | | | | \$ 15,749 | 15,749 |
| State Grants | | | | \$ 689 | | | 689 |
| Interest and Rentals | 778 | \$ 38 | 126 | | | | 942 |
| Other | | | | | \$ 3,731 | | 3,731 |
| Total Revenue | 37,650 | 38 | 61,586 | 689 | 3,731 | 15,749 | 119,443 |
| Expenditures | | | | | | | |
| Public Safety | | | 60,662 | 711 | | 15,025 | 76,398 |
| Public Works | 51,827 | | | | 4,007 | | 55,834 |
| Total Expenditures | 51,827 | | 60,662 | 711 | 4,007 | 15,025 | 132,232 |
| Excess of Revenues Over (Under) | | | | | | | |
| Expenditures | (14,177) | 38 | 924 | (22) | (276) | 724 | (12,789) |
| Fund Balances--April 1, 2003 | 107,511 | 7,263 | 60,323 | 355 | 5,911 | (1,249) | 180,114 |
| Fund Balances--March 31, 2004 | \$ 93,334 | \$ 7,301 | \$ 61,247 | \$ 333 | \$ 5,635 | \$ (525) | \$ 167,325 |

**MILAN TOWNSHIP--MONROE COUNTY
COMBINING BALANCE SHEET
TRUST AND AGENCY FUNDS
March 31, 2004**

EXHIBIT H

| | AGENCY FUNDS | | |
|--|-----------------------------|---------------------------------------|--------------|
| | Trust and Agency | Current Tax Collection | Total |
| <u>ASSETS</u> | | | |
| Cash | \$ 408 | \$ 2,517 | \$ 2,925 |
| Total Assets | \$ 408 | \$ 2,517 | \$ 2,925 |
| <u>LIABILITIES AND FUND BALANCE</u> | | | |
| Liabilities | | | |
| Due to Other Funds | | \$ 2,517 | \$ 2,517 |
| Due to State | \$ 408 | | 408 |
| Total Liabilities | \$ 408 | \$ 2,517 | \$ 2,925 |

MILAN TOWNSHIP--MONROE COUNTY
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended March 31, 2004

EXHIBIT I

| | Balance 04/01/03 | Additions | Deductions | Balance 03/31/04 |
|--------------------------------------|---------------------|-------------|-------------|---------------------|
| <u>Trust and Agency Fund</u> | | | | |
| Assets | | | | |
| Cash | \$ 376 | \$ 7,185 | \$ 7,153 | \$ 408 |
| Total Assets | \$ 376 | \$ 7,185 | \$ 7,153 | \$ 408 |
| Liabilities | | | | |
| Due to State | \$ 373 | \$ 1,577 | \$ 1,542 | \$ 408 |
| Due to Federal | 3 | 5,608 | 5,611 | |
| Total Liabilities | \$ 376 | \$ 7,185 | \$ 7,153 | \$ 408 |
| <u>Current Tax Collection</u> | | | | |
| Assets | | | | |
| Cash | \$ 197 | \$1,535,892 | \$1,533,572 | \$2,517 |
| Total Assets | \$ 197 | \$1,535,892 | \$1,533,572 | \$2,517 |
| Liabilities | | | | |
| Due to County | | \$ 558,231 | \$ 558,231 | |
| Due to Schools | | 814,780 | 814,780 | |
| Due to State | | 1,990 | 1,990 | |
| Due to Other Funds | | | | |
| Due to General Fund | \$ 197 | 60,661 | 58,341 | \$2,517 |
| Due to Fire | | 57315 | 57315 | |
| Due to Street Lighting | | 3315 | 3315 | |
| Due to Roads | | 34385 | 34385 | |
| Tax Overpayments | | 5215 | 5215 | |
| Total Liabilities | \$ 197 | \$1,535,892 | \$1,533,572 | \$2,517 |



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

March 22, 2005

Milan Township Board
Monroe County
16444 Cone Road
Milan, Michigan 48160

RE: Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards

Dear Board Members:

We were engaged to audit the accompanying general purpose financial statements of Milan Township, Monroe County, Michigan, as of and for the year ended March 31, 2004 as listed in the Table of Contents. We were unable to express an opinion due to a scope limitation imposed by management as Milan Township did not maintain a general ledger, could not produce its General Appropriations Act for the 2004 fiscal year, was unable to produce evidence supporting the expenditures incurred for the time period of May 2003 through October 2003, and was unable to provide official board minutes from January 2003 through September 2003. These general purpose financial statements are the responsibility of the Township's management. The presentation of such documentation is necessary, in our opinion, to perform an audit of compliance with auditing standards generally accepted in the United States of America.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The general purpose financial statements of Milan Township were not audited in accordance with Government Auditing Standards.

Compliance--As part of obtaining reasonable assurance about whether Milan Township's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards. Material and nonmaterial noncompliance are described in the accompanying comments and recommendations section of our report.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered Milan Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Milan Township's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying comments and recommendations section of our report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. The material weaknesses are described in the accompanying comments and recommendations section of our report.

This report is intended for the information and use of Milan Township's management, and Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

MILAN TOWNSHIP--MONROE COUNTY

COMMENTS AND RECOMMENDATIONS

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect Milan Township's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is an internal control deficiency in which the design or operation of a component(s) of internal control does not reduce to a relatively low level the risk that a material misstatement may be contained in the financial statements.

Our consideration of internal controls would not necessarily disclose all matters in internal controls that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable conditions that we believe to be material weaknesses.

The township is relatively small in size. Therefore, there is an overall lack of segregation of duties which should be considered when reviewing the material and reportable weaknesses listed below. Segregation of duties requires that key duties and responsibilities be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

MATERIAL WEAKNESSES

Clerk--General Ledger

Condition: Our examination indicates that the township's electronic general ledger is incomplete for the General Fund and Special Revenue Funds.

Criteria: The general ledger is the gathering place for all local unit financial data. Properly maintained, it is a valuable tool of management. The general ledger is the single binder in which all funds and accounts of the township are maintained. Entries in the general ledger are made only from: (1) the receipts register; (2) disbursements register; and (3) the journal entries.

Cause and Effect: Failure to post complete accounting records on a timely basis may result in the following:

1. The financial condition of the township may not be readily determined.
2. The board may not be able to make sound business decisions because it has no financial data on which to make an evaluation.
3. The board may obligate more funds than are available, which is a violation of the Uniform Budgeting and Accounting Act.

MILAN TOWNSHIP--MONROE COUNTY

COMMENTS AND RECOMMENDATIONS

MATERIAL WEAKNESSES (Continued)

Recommendation: We recommend that the township establish monthly procedures to assure that all transactions are posted properly to a general ledger, receipts register and disbursements register; and that the general ledger is in balance with the respective subsidiary accounts.

Clerk--Maintenance of Township Records

Condition: The township was unable to locate the invoices from April 2004 through September 2004 that support the disbursements made by the township during that time period. Also, the township was unable to locate Form 941 for December 2003 or March 2004.

Criteria: Standards of Internal Control for the Federal Government lists *control activities* as one of the five components of internal control. Control activities occur at all levels and include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, documentation, and performance reviews. According to the Standards for Internal Control, all transactions and significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.

Recommendation: We recommend that the township clerk implement control activities to ensure that the documentation of the township is properly maintained and preserved.

RECEIPTING PROCESS

Treasurer--Issuance and Reconciliation of Receipts for All Revenue Received

Condition: The township treasurer has been the only person receiving, recording and reconciling all of the monies received by the township.

Treasurer--Preparation of Receipts

Condition: The township does not include the method of payment or account classification on its receipts.

Treasurer--Restrictively Endorsing Checks

Condition: The township does not restrictively endorse checks immediately upon receiving them.

MILAN TOWNSHIP--MONROE COUNTY

COMMENTS AND RECOMMENDATIONS

MATERIAL WEAKNESSES (Continued)

Criteria: Strong internal controls provide for the reliability of financial reporting, safeguarding of vulnerable assets, accurate and timely reporting of transactions, access restrictions to and accountability for resources and records, and proper documentation of transactions. The Michigan Department of Treasury, Uniform Accounting Procedures Manual, sets forth the minimum internal controls that must be in place in every unit of government in Michigan as follows:

1. Official receipts are to be issued for each collection whether received from an individual, the state, the county, or another local unit department.
2. Numerically controlled (printer pre-numbered) three-part official receipts with the name of the local unit printed on the receipt must be issued for all collections.
3. The use of generic, store-bought receipts is strictly prohibited.
4. 'Cash' or 'check' as the method of payment must be indicated on the receipt.
5. The receipt must identify the individual receiving payment.
6. The receipt must allow for immediate revenue account classification in conformance with the Uniform Chart of Accounts.
7. Checks must be restrictively endorsed at the point and time of collection.
8. When possible, someone other than the person who writes receipts or posts the accounting records must be responsible to verify that collections received in the mail are properly receipted.
9. When possible, collections must be reconciled by an individual not involved in the receipting process.

All money must be turned over intact. Intact means that the deposit must include the checks and cash received for a specific numerically sequenced receipt group. Any overage and/or shortage amounts should be deposited and recorded separately along with the receipts. All voided receipts should be kept intact and maintained in sequential order along with the other receipts. Strong internal control activities require the maintenance of original source documentation to be kept intact. The Michigan Department of Treasury, Uniform Accounting Procedures Manual, states, in part, ".if computerized receipts are issued, all receipts' triplicate copies should be printed and retained in numerical order."

Recommendation: We recommend that all township offices that collect cash issue receipts immediately upon collection and implement the aforementioned procedures. Monthly procedures should include comparing receipts written for the month with the receipts register and with bank deposits by other than just the township treasurer.

MILAN TOWNSHIP--MONROE COUNTY

COMMENTS AND RECOMMENDATIONS

MATERIAL WEAKNESSES (Continued)

DISBUREMENTS PROCESS (VENDOR AND PAYROLL CHECKS)

Clerk--Lack of Account Classification, Administrative Approval

Condition: Invoices prepared by the township do not contain any administrative approval nor did they contain an account classification. Time sheets are not signed or initialed to indicate evidence of supervisory review.

Criteria: According to the Uniform Accounting Procedures Manual, appropriate documentation (supporting invoices) must be attached for all disbursements. Invoices should provide evidence that the proper individual has reviewed them and must indicate the account classification.

Recommendation: We recommend that the person reviewing the invoices provide evidence that the invoice has been reviewed and indicate the account classification on the invoice.

PAYROLL PROCESS

Clerk--Payroll Preparation

Condition: The township is not properly processing payroll. The following conditions exist relating to the preparation of payroll:

- 1) Incorrect percentages used for calculating social security and Medicare as established by the Internal Revenue Service (IRS).
- 2) Amounts that are withheld are not paid to the IRS timely (monthly).
- 3) Improper amounts are sometimes being paid to the IRS.
- 4) The Form 941 is not properly being prepared. The total wages listed are not accurate, which affects the computed Medicare and social security amounts due. The amount reported as Federal taxes withheld by the township does not agree with the actual amounts withheld, and the summary of payments actually paid to the IRS does not agree with the township records.

Criteria: Circular E of the Internal Revenue Code states the employee tax rate for social security is 6.2% and the employee tax rate for Medicare is 1.45%. Circular E also states that withholdings are to be paid by the 15th day of the following month. For withholding amounts not properly or timely deposited, the penalty rates are 2% for 1-5 days late, 5% for 6-15 days late, and 10% for 16 or more days late.

Each quarter, all employers who pay wages subject to income tax withholding or social security and Medicare taxes must file **Form 941**, Employer's Quarterly Federal Tax Return, by the last day of the month that follows the end of the quarter. For each whole or part month a return is not filed when required, there is a penalty of 5% of the unpaid tax due with that return. The maximum penalty is 25% of the tax due. A form 941c should generally be prepared for any corrections of current period and prior period adjustments (see Circular E for more information).

MILAN TOWNSHIP--MONROE COUNTY

COMMENTS AND RECOMMENDATIONS

MATERIAL WEAKNESSES (Continued)

Recommendation: We recommend that the township take more care in processing payroll and in reconciling payroll related reports. The township should ensure that:

- 1) All gross wages are included in the monthly payroll process.
- 2) All wages be multiplied by 6.2% and 1.45% for Social Security and Medicare, respectively.
- 3) All Federal withholding and Social Security and Medicare withholdings be deposited with the financial institution (to be paid to the IRS) within the time requirement.
- 4) All gross wages are included in the Form 941.
- 5) All calculations in the Form 941 are accurate.
- 6) Any amount due to the IRS is paid, if applicable, on a timely basis.
- 7) Form 941 is filed on a timely basis.

Township Board--Purchasing Policy

Condition: The township does not have a purchasing policy.

Criteria: A system of internal controls over expenditures depends upon a purchasing policy which results in methods for approving and making expenditures which are under the control of a central oversight agency, the township board. A purchasing policy is required to establish guidelines for purchasing functions and procedures.

Cause and Effect: Expenditures may or may not have been made in accordance with the township's best interest. The lack of a written policy makes it difficult to determine the validity of expenditures in the future. Adequate control procedures over expenditures require that procedures for expending township funds be clearly defined and followed by all personnel.

Recommendation: We recommend that the township board give consideration to developing a written purchasing policy that clearly defines the following:

- a) An amount that can be expended without board approval;
- b) The amount of expenditures that require board approval;
- c) Documentation required for all expenditures;
- d) The amount of expenditures that require formal bid procedures; and
- e) The amounts and types of purchases that are required to be capitalized.

Other procedures that could be included are ethical standards, expense reimbursements, requisitions and purchase orders, price quotations, bids, advertising, sealed proposals, public opening, awarding, forms of contracts the township is willing to enter, requests for proposals, emergency purchasing, local supplies preferences, and/or cooperative purchasing.

Developing and implementing a written policy of this nature will not only ensure that expenditures continue to be made in accordance with township policy, it will also serve as criteria and evidence that officials are conducting the business of the township appropriately.

MILAN TOWNSHIP--MONROE COUNTY

COMMENTS AND RECOMMENDATIONS

MATERIAL WEAKNESSES (Continued)

TAX COLLECTIONS AND DISTRIBUTIONS

Treasurer--Current Tax Collection Account

Condition: The township maintains a separate Current Tax Collection Account as required by the Uniform Accounting Procedures Manual. As of March 31, 2004, a balance remained in the bank account.

Criteria: The Uniform Accounting Procedures Manual requires that the Current Tax Collection Account be reduced to zero or an imprest balance as soon as possible after tax settlement in March each year.

Cause and Effect: Also according the MCL 141.913, the Department of Treasury can withhold Revenue Sharing payments if property taxes are not properly distributed.

Recommendation: We recommend that the township disburse all tax collections in a timely manner to the respective governmental units as prescribed by MCL 211.43 and reduce the balance to zero or a board approved imprest amount.

Township Board--General Fixed Assets

Condition: The township does not maintain adequate internal controls for fixed assets and a general fixed asset account group is not maintained in accordance with generally accepted accounting principles. There is a schedule that records a beginning balance of the fixed assets and current year additions and an ending balance. However, the township could not provide a fixed asset listing that supports the balances.

The township has not adopted a capitalization policy to determine a "threshold" to capitalize an asset or record it as an expenditure.

Criteria: It is the responsibility of the township to update the fixed assets listing for additions and deletions. Assets purchased during the year and recorded as capital outlay should equal the additions to the fixed asset records. Disposals should equal the reductions to the fixed asset records.

Recommendation: We recommend that the township develop a property management system that includes all of the following steps:

- 1) An inventory of all fixed assets owned by the township should be taken and included in the permanent records of the township and updated annually.

MILAN TOWNSHIP--MONROE COUNTY

COMMENTS AND RECOMMENDATIONS

MATERIAL WEAKNESSES (Continued)

- 2) All assets owned by the township should be permanently labeled in some manner such as individual tags. This will not only facilitate the inventory suggested above, but will also make it more difficult for assets of the township to be removed or used by unauthorized personnel.
- 3) As part of the property management system, the township should keep records on all assets owned by the township which includes the following information:

| | |
|--------------------------|---|
| -Date of Acquisition | -Date of Disposal (when sold or scrapped) |
| -Tag Number | -Salvage Value (if any) |
| -Description of Property | -Life of Asset |
| -Original Cost of Asset | -Depreciation Method of the Asset |
| -Location of Asset | -Accumulated Depreciation of the Asset |
- 4) Capital assets that meet the township's capitalization policy should be included on the capital asset listing.
- 5) Capital outlay/assets which are purchased under the established capitalization threshold or assets with life expectancy of less than 1 year, regardless of cost, should be classified as a supply or repairs and maintenance expenditure.

Developing a property management system that includes the above steps will not only facilitate the preparation of financial statements related to fixed assets and provide a system of protection for the assets, it will provide an excellent record for insurance and replacement purposes as well. Governmental Accounting Standards Board (GASB) Statement No. 34 requires fixed assets to be included in the financial statements of the township. Compliance with GASB No. 34 is mandated for the township for the next audit period.

Township Board--Lack of Internal Controls

Condition: Milan Township has not implemented policies or procedures to establish any significant level of internal controls.

Criteria: Standards of Internal Control for the Federal Government define internal control as an integral part of an organization's management that provides reasonable assurance that the following objectives are being achieved: (1) effectiveness and efficiency of operations, (2) reliability of financial reporting, and (3) compliance with applicable laws and regulations. Internal controls serve as the first line of defense in safeguarding assets and detecting errors and fraud.

MILAN TOWNSHIP--MONROE COUNTY

COMMENTS AND RECOMMENDATIONS

MATERIAL WEAKNESSES (Continued)

Recommendation: We recommend that the Milan Township establish policies and procedures to establish internal controls to comply with the objective listed above and as a means to address the comments and recommendations listed in the this report.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Modified Accrual Basis of Accounting: Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Measurable refers to the ability to quantify in monetary terms of the amount of the revenue. Current expenditures are generally recorded when the fund liability is incurred, if measurable.

Treasurer--Accruals

Condition: Accruals (accounts receivable), the recording of the revenues in the accounting period to which they relate, were not recorded for the governmental funds. The township also does not record the April distribution of state revenue sharing as a receivable. Therefore, the corresponding revenue account is misstated.

Criteria: Governmental funds are to be maintained on a modified accrual basis. Generally accepted accounting principles also require that accounts receivable be established to properly match the fiscal year's revenues and expenses. Also, according to numbered letter 1997-1, Accrual of State Shared Revenues, local units with a March 31 year-end must accrue the April distribution because it is for the March/April collection period.

Recommendation: We recommend that the township record accruals. The accruals should be reconciled to subsidiary records to support the balances in the respective accounts.

Clerk--Accruals

Condition: Accruals (accounts payable) were not recorded for the governmental funds.

Criteria: Governmental funds are to be maintained on a modified accrual basis. Generally accepted accounting principles also require that accounts payable be established to properly match the fiscal year's revenues and expenses.

Recommendation: We recommend that the township record accruals. The accruals should be reconciled to subsidiary records to support the balances in the respective accounts.

MILAN TOWNSHIP--MONROE COUNTY

COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES

Our examination revealed the following instance of noncompliance with State statutes.

Township Board--Adoption of Township General Appropriation Act

Condition: The minutes did not indicate that a public hearing was held for the adoption of the 2003-2004 budget and no formal adoption of the budget was noted in the minutes. The budget that was adopted, could not be produced by the township.

Criteria: MCL 141.413 Sec. 3 states: "Each local unit shall hold such a public hearing prior to final adoption of its budget."

MCL 141.435 Sec. 15 states:

- (1) The recommended budget shall include at least the following:
 - (a) Expenditure data for the most recently completed fiscal year and estimated expenditures for the current fiscal year.
 - (b) An estimate of the expenditure amounts required to conduct, in the ensuing fiscal year, the government of the local unit, including its budgetary centers.
 - (c) Revenue data for the most recently completed fiscal year and estimated revenues for the current fiscal year.
 - (d) An estimate of the revenues, by source of revenue, to be raised or received by the local unit in the ensuing fiscal year.
 - (e) The amount of surplus or deficit that has accumulated from prior fiscal years, together with an estimate of the amount of surplus or deficit expected in the current fiscal year. The inclusion of the amount of an authorized debt obligation to fund a deficit shall be sufficient to satisfy the requirement of funding the amount of a deficit estimated under this subdivision.
 - (f) An estimate of the amounts needed for deficiency, contingent, or emergency purposes.
 - (g) Other data relating to fiscal conditions that the chief administrative officer considers to be useful in considering the financial needs of the local unit.
- (2) The total estimated expenditures, including an accrued deficit in the budget, shall not exceed the total estimated revenues, including an available unappropriated surplus and the proceeds from bonds or other obligations issued under the fiscal stabilization act or the balance of the principal of these bonds or other obligations.

MCL 141.438 states, "Except as otherwise provided in section 19, an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body. The chief administrative officer, an administrative officer, or an employee of the local unit shall not apply or divert money of the local unit for purposes inconsistent with those specified in the appropriations of the legislative body."

MILAN TOWNSHIP--MONROE COUNTY

COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES (Continued)

Directive: We direct the township to comply with the above statutory budgeting requirements and to schedule and hold hearings as required by State statute. The township board should take appropriate action to ensure that the budget is balanced and adopted in a timely manner as required and make budget amendments as needed throughout the year.

Clerk--Review of the General Ledger

Condition: The township general ledger is being kept by the treasurer. The general ledger prepared is **not reviewed** by the clerk to verify the accuracy of the postings. The general ledger cash account is not reconciled with the clerk's computer cash account.

Criteria: MCL 41.65 states, "The township clerk shall also open and keep an account with the treasurer of the township, and shall charge the treasurer with all funds that come into the treasurer's hands by virtue of his or her office, and shall credit him or her with all money paid out by the treasurer on the order of the proper authorities of the township, and shall enter the date and amount of all vouchers in a book kept by the township clerk in the office. The township clerk shall be responsible for the detailed accounting records of the township utilizing the uniform chart of accounts prescribed by the state treasurer. The township clerk shall prepare and maintain the journals and ledgers necessary to reflect the assets, liabilities, fund equities, revenues, and expenditures for each fund of the township."

Directive: We direct the township clerk to review the entries made to the general ledger as prepared by the township's accountant to verify its accuracy and reconcile the general ledger cash with the township treasurer's cash balance.

Clerk--Uniform Chart of Accounts

Condition: The township records the special assessment for streetlights and the state grant for liquor law enforcement in the General Fund.

Criteria: According to MCL 41.110a, the township is to establish the chart of accounts in compliance with the Uniform Chart of Accounts issued by the Michigan Department of Treasury.

It also requires Fund 212, the Liquor Law Enforcement Fund, to be used to account for townships which do NOT have a full time police or enforcement department to account for the distribution of State liquor law enforcement money to the local unit of government for enforcing the Liquor Control Act. Fund 219, the Street Lighting Fund, is required to account for a tax levy or special assessment levy for the purpose of providing street lighting authorized by a vote of the electors of the local unit of government.

MILAN TOWNSHIP--MONROE COUNTY

COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES (Continued)

Directive: We direct the township to establish the funds listed above to comply with State statutes and the Uniform Chart of Accounts.

Treasurer--Old Outstanding Checks

Condition: The township currently has outstanding checks that are over one year old.

Criteria: According to MCL 567.234, "Property held for the owner by a court, state, or other government, governmental subdivision or agency, public corporation, or public authority that remains unclaimed by the owner for more than 1 year after becoming payable or distributable is presumed abandoned."

MCL 567.238 then states, "A person holding property presumed abandoned and subject to the state's custody as unclaimed property under this act shall be reported to the administrator concerning the property as provided in this section. The report shall include all of the following: The name, if known, social security number, if known, and last known address, if any, of each person appearing from the records of the holder to be the owner of property of the value of \$50.00 or more presumed to be abandoned..."

MCL 567.240 then states, "A person who is required to file a report...shall at the time of the report pay or deliver to the administrator all abandoned property to be reported...or any balance owing if an estimated payment was made..."

Directive: We direct that the township turnover all unclaimed checks over one year old with a value of \$50 or more to the State of Michigan in accordance with the above statutory requirements. We recommend that all other old unclaimed outstanding checks be recorded as General Fund revenue and removed from the outstanding check list on the bank reconciliation.

MILAN TOWNSHIP--MONROE COUNTY

COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES (Continued)

Township Board--Electronic Transactions of Public Funds

Condition: Milan Township electronically transfers funds for payroll withholdings without legal authority.

Criteria: According to MCL 124.303, "A local unit shall not be a party to an ACH arrangement unless the governing body of the local unit has adopted a resolution to authorize electronic transactions and the treasurer or the ETO of the local unit has presented a written ACH policy to the governing body. The ACH policy shall include all of the following:

- (a) That an officer or employee designated by the treasurer or ETO is responsible for the local unit's ACH agreements, including payment approval, accounting, reporting, and generally for overseeing compliance with the ACH policy.
- (b) That the officer or employee responsible for disbursement of funds shall submit to the local unit documentation detailing the goods or services purchased, the cost of the goods or services, the date of the payment, and the department levels serviced by payment. This report can be contained in the electronic general ledger software system of the local unit or in a separate report to the governing body of the local unit.
- (c) A system of internal accounting controls to monitor the use of ACH transactions made by the local unit.
- (d) The approval of ACH invoices before payment.
- (e) Any other matters the treasurer or ETO considers necessary."

Directive: We direct the township board to adopt a resolution to authorize electronic transactions and to adopt a policy that includes the above mentioned items.

Deficit Fund Balances

Condition: As of March 31, 2004, a deficit in the unreserved fund balance existed in the Building Fund (special revenue fund) of \$525.

Criteria: Public Act 140 of 1971, as amended, requires Milan Township to file a deficit elimination plan with the Michigan Department of Treasury within 90 days after the end of the fiscal year for each fund that ended that year in a deficit condition. Milan Township has not filed the required plan.

Directive: We direct Milan Township file a Deficit Elimination Plan as required by PA 140 of 1971, as amended.

MILAN TOWNSHIP--MONROE COUNTY

COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES (Continued)

Township Board Minutes/Open Meetings Act

Condition: As of March 31, 2004, the township could not locate the official township board minutes from the January 2003 through September 2003.

Criteria: Revised Statutes of 1846, as amended (MCL 41.8) states, "The business performed at a meeting of the electors of a township shall be conducted at a public meeting held in compliance with the open meetings act, Act No. 267 of the Public Acts of 1976, as amended, being sections 15.261 to 15.275 of the Michigan Compiled Laws. Public notice of the time, date, and place of the meeting shall be given by the township clerk in the manner required by Act No. 267 of the Public Acts of 1976, as amended, and as provided by section 2 of Act No. 43 of the Public Acts of the Second Extra Session of 1963, being section 141.412 of the Michigan Compiled Laws."

Public Act 267 of 1976, as amended, (MCL 15.269) states, "Each public body shall keep minutes of each meeting showing the date, time, place, members present, members absent, any decisions made at a meeting open to the public, and the purpose or purposes for which a closed session is held. The minutes shall include all roll call votes taken at the meeting. The public body shall make any corrections in the minutes at the next meeting after the meeting to which the minutes refer. The public body shall make corrected minutes available at or before the next subsequent meeting after correction. The corrected minutes shall show both the original entry and the correction."

Directive: We direct Milan Township to keep board minutes as required by PA 267 of 1976, as amended.

Township Board--Annual Audit

Condition: The township has not completed its annual audit of its March 31, 2002 fiscal year.

Criteria: Public Act 2 of 1968, (MCL 141.427, Section 7 (4), requires a copy of the audit report and the copy of the report of auditing procedures be filed with the state treasurer within 6 months after the end of the fiscal year of a local unit for which an audit has been performed.

Directive: We direct the township to have its audit completed within the statutory deadline.

Township Board--Violations of Public Act 2 of 1968--Audit

Material weaknesses and reportable conditions in the accounting system of the township are matters which compels the Department of Treasury to continue to require an annual audit.

Milan Township shall obtain annual audits until the deficiencies in the accounting system have been corrected and a complete accounting system has been established and maintained.